

Thank you for coming.

For months, I have been warning the Governor and the Legislature that without sound solutions in place to address not only the State's chronic budget deficit but to provide an immediate infusion of cash into the State treasury, we will be out of money and unable to pay our bills.

That time has come. With no fix by the Governor and Legislature, the State is facing a \$346 million shortfall on February 27. If there continues to be no plan enacted next month, we will be \$5.2 billion in the red in April. Without corrective action by lawmakers, the State's shortfall may exceed \$10 billion by July.

To preserve needed cash to make payments deemed by the State Constitution, federal law or court order to have first claim to General Fund money – which include education and debt service – I have said I will be forced to delay other payments, or, as a last resort, issue IOUs in lieu of those payments.

Let me make this clear: The last day the State had a positive cash flow in its General Fund was one-and-a-half years ago, on July 12, 2007. At the end of February, we will have exhausted the \$16.5 billion in internal funds we can borrow from, plus the \$5 billion in RANs the Treasurer sold last fall. And we'll be in the hole by \$346 million.

Today I am sending a letter to legislators and the Governor telling them that in order to preserve cash for those payments we have to make, they must enact sufficient solutions to solve the cash crisis by February 1. If they do not act by then, I will be forced to put a 30-day hold on other critical payments.

This is a painful plan, and it pains me to pull the trigger. But it is the only option we have.

This action will impact thousands of payments to businesses for services and products they provide to the State. It will delay critically-needed payments to 1.3 million aged, blind and disabled Californians who use the money pay rent, utilities, and put food on their tables. Californians state agencies will see a delay in the funding they use for critical public services, ranging from public safety to health and welfare. And it will hurt taxpayers – both businesses and individuals – who expect, have earned and deserve to have their tax refunds sent to them in a timely manner.

If the Legislature and Governor fail to enact a sound solution sometime in February, I may be forced to delay payments even further or until such time that we are forced to issue IOUs.

Let me make this point: Delaying these payments will hurt real people, many of whom are barely hanging on in these tight times. Businesses with state contracts may have to lay off employees. Taxpayers who expected to use their refund to replace a car or buy a new appliance or pay off their credit card will have to wait. Not putting money in their pockets means they will not be spending it.

In short, at a time when everyone is talking about stimulus packages, this action is the anti-economic stimulus package. It not only does not jump-start the economy, it most likely will prolong our economic pain and delay our economic recovery.

I want to make one final comment before opening it up for questions. As I wrote in my letter to them, the Governor and the Legislature have the sole power to avert this drastic and painful action. They have a narrow window of opportunity to take quick action and enact a sound solution to bridge the State's cash and budget deficit. I urge them to seize it.

Now, I'm happy to entertain your questions.

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